



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

July 1, 2009

Hon. Mike Foster, President
Board of Directors
Kentucky Association of Counties, Inc.
380 King's Daughters Drive
Frankfort, Kentucky 40601

Re: Auditor's Examination of KACo

Dear Mr. Foster:

This letter notifies you as President of the Board of Directors of the Kentucky Association of Counties, Inc. (KACo) that the Auditor of Public Accounts (Auditor) will be conducting an independent examination of selected financial policies, accounts, transactions, and other activity of KACo and its affiliated funds, programs, and organizations.

Given recent news reports of certain KACo financial transactions as well as concerns brought to this office, the Auditor has a responsibility to the public to perform an independent examination of KACo to ensure that the public's money is being spent in the best interests of the taxpayers, who are ultimately responsible for funding KACo. Accountability and transparency are essential, especially during difficult economic times, to ensure that KACo's member counties are receiving the maximum benefit from KACo's expended funds.

KACo receives public taxpayer funds from dues, insurance premiums, interest on loans, and other sources, which are paid to KACo by its member counties from public funds. Elected county officials, including county attorneys and county judge/executives, serve on KACo's Board and govern its operations.

KACo's officers and employees participate in the County Employees Retirement System (CERS), a state-administered public retirement system for officials and employees of Kentucky's counties, other local governments, and other entities. Thus, for retirement purposes, KACo officers and employees are treated as county officers and employees in this state retirement system.



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KRS 43.070 authorizes the Auditor to audit and examine counties, county judge/executives, and county attorneys, among others. KRS 43.050 authorizes the Auditor to audit and examine all private and semi-private entities receiving state aid or having responsibility for the handling of any state funds; and to investigate and examine into the conduct of county officers who manage or control any property belonging to the state or in which the state is interested. KRS 43.080 authorizes the Auditor to have access at all times to the papers, books and records of any county officer who receives or disburses county funds.

For the reasons cited above, among others, the Auditor has the authority and the responsibility to audit and examine KACo.

In addition, there is precedent for the Auditor to examine KACo, this office having conducted an examination and management review of KACo and related programs in 1993, under the direction of Auditor Ben Chandler.

We look forward to working cooperatively with you, the other Directors on KACo's Board, and KACo's staff as we examine KACo's polices and financial activity, and provide recommendations to improve KACo's financial controls and processes. Brian Lykins, the Auditor's Executive Director of the Office of Technology and Special Audits, will be in touch with your office soon to schedule an initial meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

c: Members of the Board of Directors of KACo
Bob Arnold, Executive Director and CEO of KACo